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INTELLIGENCE REPORT

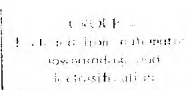
Prepared Weekly

for the

SENIOR INTERDEPARTMENTAL GROUP

DIRECTORATE OF INTELLIGENCE

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1. INDONESIA

Now that President Sukarno's power has been effectively reduced, the government can direct its attention to the economic situation, which may become the nation's ultimate political problem.

Production continues to decline, and galloping inflation has raised prices sixfold in six months. Foreign exchange reserves have been completely exhausted, and the foreign debt is far beyond the country's ability to pay. Even the 75 percent of the population which engages in subsistence agricultural production and rarely enters the money economy is being affected by the general decline.

As a first step toward economic recovery, Indonesia wants to reschedule payments on its international debt of some \$2.4 billion. It has agreed with Western creditor nations that the rescheduling should be approached on a multilateral basis, and a formal conference for this purpose is to be held in Tokyo in mid-September.

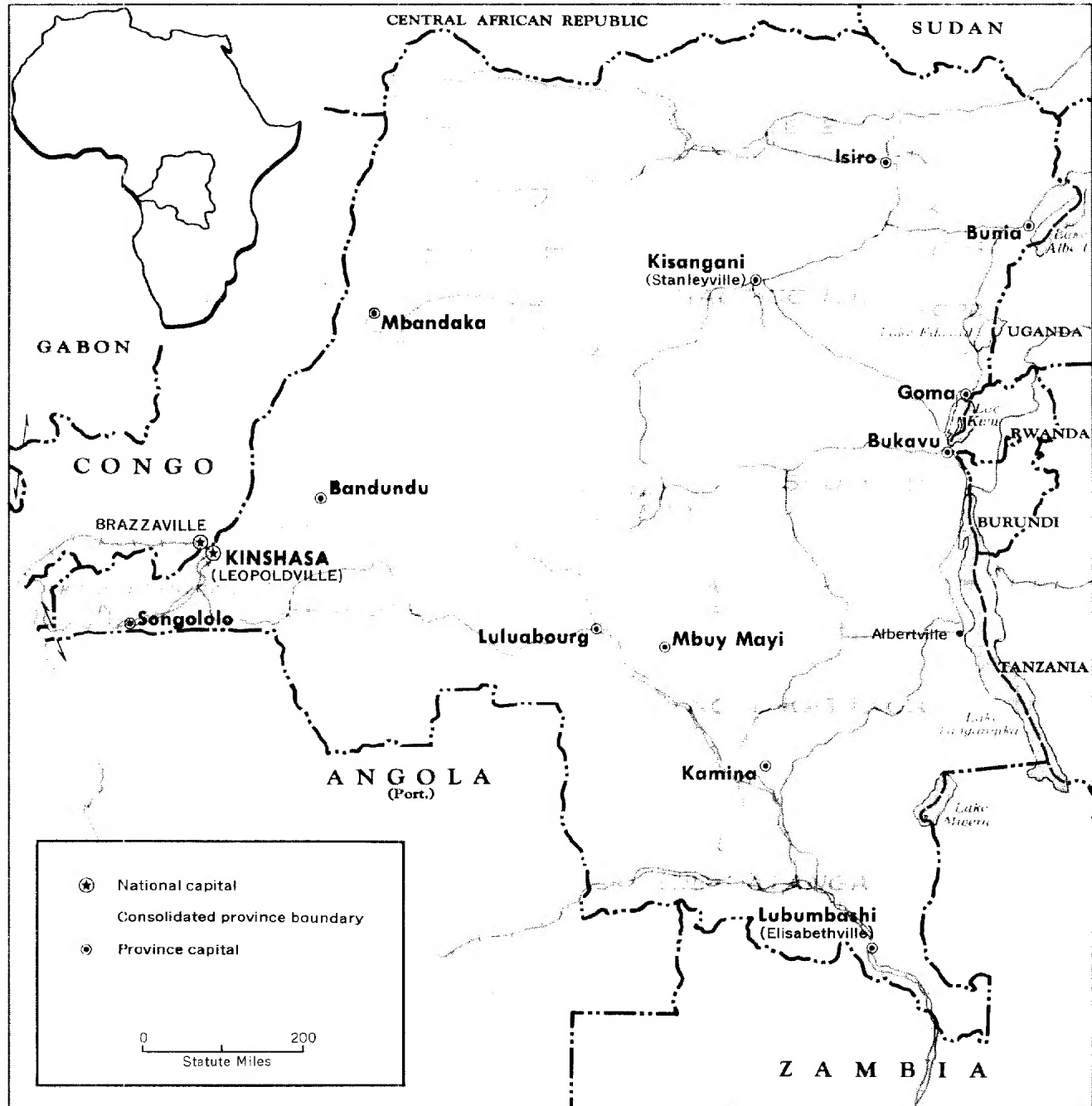
Direct economic assistance is also needed. For this, Indonesia looks toward negotiating bilateral arrangements with individual countries. Djakarta has also applied for readmission to the International Monetary Fund and the World Bank. To rejoin the Fund, however, Indonesia must pay \$47.4 million as its gold subscription and repurchase obligation. It hopes that an initial token payment will be acceptable, but no early decision on the matter seems likely.

Some economic relief may be achieved by resuming trade relations with Singapore and Malaysia; the former was once among Indonesia's most important trading partners. Such action was made possible by the formal agreement on 11 August to end military confrontation of Malaysia. This agreement may also--Djakarta hopes--make Western nations more responsive to requests for aid.

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DEMOCRATIC REPUBLIC OF THE CONGO



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2. CONGO (KINSHASA)

The situation in the Congo continues to deteriorate.

The Mobutu government has made no real progress in its efforts to end the mutiny of Katangan troops in Kisangani. The truce arranged by Premier Mulamba leaves the Katangans in control of most of the city, and the government seems unlikely to regain their allegiance without substantial concessions (see map).

Other Katangans and some mercenaries have left their posts in the far northeast and may be moving toward Kisangani. The government may manage to keep them away from the city, but wherever they are they will constitute yet another disruptive element which the government has little chance of controlling. Moreover, with the Katangans' withdrawal from the campaign against the rebels, "simba" (rebel) bands are beginning to show signs of renewed activity.

In Kinshasa, President Mobutu seems less concerned with the situation in the northeast than with his fears of a plot against him. His long-standing suspicions of the Belgians seem to have broadened to include other Western nationals as well. He also distrusts Premier Mulamba.

His relations with Belgium have recently improved slightly, but deep distrust remains on both sides. Belgium has already withdrawn many of its military advisers and seems likely to reduce its technical assistance as well. These actions will reduce the army's ability to cope with unrest and will also add to Mobutu's feelings of frustration with Belgium.

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3. NIGERIA

The mutiny of Northern army elements which catapulted 31-year-old Lt. Col. Gowon to power in Lagos has left the army in a shambles and stirred up tribal hatreds to a degree which threatens to break up the country. Representative Nigerians are searching for a new formula for continued union, but the process will be protracted, and the outcome is uncertain.

The successful revolt resulted in the killing of a large number of Ibo military personnel from Eastern Nigeria, including former regime leader Ironsi. Other Ibos have fled to their home region. As a consequence, the command and support structure of the army, largely staffed by the better educated Ibos, has been shattered. Moreover, Gowon apparently lacks full control over the hard-core Northern elements now dominant in most army units.

Eastern Military Governor Ojukwu, currently top spokesman for the Ibos, still has not formally acknowledged Gowon as Ironsi's successor. However, he did send representatives to last week's preliminary talks in Lagos on future regional relationships. The Eastern leaders apparently continue to doubt that the oil-rich East can remain united with the other regions.

[REDACTED]

There is a fair chance, however, that a single international entity will survive provided the interregional negotiations are not aborted by the action of fractious military elements. This entity would be a loose federation with a relatively weak central government responsible for limited common services.

The renewed exodus from the North of thousands of Ibo civilians is already having a serious disruptive effect on business and services there. The US AID program, which employed many Ibos, will suffer, as few qualified replacements are available.

[REDACTED]

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5. CUBA

Fidel Castro's speech on 26 July revived a problem which has marred his past relations with the Moscow-oriented Communist parties of Latin America--the question of peaceful or violent revolution.

The tone of the speech, in which Castro denounced those "pseudorevolutionaries" who choose the path of "electioneering" rather than violence, suggests that he no longer intends to honor the accord reached at the Havana meeting of Latin American Communist leaders in November 1964. At that time he grudgingly agreed to fund only those extremist groups endorsed by the local parties. Since few parties favor armed struggle, there has since been a sharp drop in actual Cuban assistance.

Some party leaders who--unlike the Cubans--suffer the consequences of governmental retaliation against leftist violence are much concerned by Castro's renewal of the debate. For example, the secretary general of the Costa Rican Communist Party has recently acknowledged "serious differences" between his party and the Castro regime and complained of Cuban pressure to initiate guerrilla activity in Costa Rica--a path he has consistently refused to take.

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In Chile, Castro's remarks have further aggravated the troubles of the Socialist-Communist alliance; Communist leaders openly rejected the call for violence, while Socialist Senator Allende publicly applauded the speech.

Communist leaders in Venezuela have become so incensed with Castro and his heavy propaganda support of Douglas Bravo's dissident hard-line faction that they are reportedly considering a public denunciation and possibly a rupture in party relations with the Castro regime.

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6. DOMINICAN REPUBLIC

Many Dominican military officers who supported President Balaguer when his term began are disappointed in his subsequent actions. Although they pose no serious immediate challenge, their unrest--which has been exaggerated by rumors--may cause Balaguer to take action to assert his authority over the military before the Inter-American Peace Force leaves in late September.

Some officers are probably dismayed at Balaguer's refusal to move against the Communist and non-Communist left. One group was irritated when he rebuffed a request that exiled General Wessin be permitted to return. Some are complaining about the regime's austerity program, which has cut their salaries.

Top-ranking officers are increasingly concerned over the activities of Balaguer's military aide, Colonel Nivar, who they believe is undercutting their authority. Some suspect that Nivar, a Balaguer loyalist with an unsavory reputation, is eyeing the post of minister of defense. [REDACTED]

[REDACTED] Nivar's influence is declining, but the role the President intends for him is still obscure.

Tension may also have been increased by the ordering of changes in the armed forces' organization by Balaguer, apparently in an effort to reduce the power of ultraconservative officers. While last week's disorders may cause a delay in implementing these changes, Balaguer appears determined to make what he has called "far-reaching" reforms.

The unrest, and such actions as the recent arbitrary arrest of leaders of Bosch's party by air force officers, may cause Balaguer to speed up his timetable for military reforms. As shown by his replacement of the national police chief, Balaguer places strong emphasis on the loyalty of subordinates.

He must move carefully, however, lest he upset a military establishment jealous of its traditional political hegemony in the country. [REDACTED]

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